In the

Supreme Court of the United States.

OCTOBER TERM, 1940.

No. ~~1093~~. 75

B. B. CHEMICAL CO.,
Petitioner,

v.

ELMER A. ELLIS AND MAGIC TAPE COMPANY,
Respondents.

BRIEF FOR THE RESPONDENTS IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI.

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OCTOBER TERM, 1940.

No. 1033.

B. B. CHEMICAL CO., PETITIONER,

v.

ELMER A. ELLIS AND MAGIC TAPE COMPANY, RESPONDENTS.

BRIEF FOR THE RESPONDENTS IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI.

The Respondents submit that the Petition should be denied for the reason that every question that can properly be argued by the Petitioner on this Record has been settled by this Court.

I. STATEMENT OF THE CASE.

The Petitioner's statement is incorrect in one particular on which great reliance is placed throughout the Petition and supporting Brief.

It is said that it is not practicable to license shoe manufacturers under the patent in suit, for they do not desire to practice the patented process under license (Petition, pp. 5 and 8; Question No. 4 at p. 10). There is no direct evidence of this.

There is evidence that shoe manufacturers do not desire

to prepare the unpatented materials for use in the process but prefer to get those materials—precoated duck and adhesive—from a common source (Tr. pp. 80-82). But there is no evidence that they would not take a license which would leave them free to buy all the unpatented materials from any common source they pleased.

To say that shoe manufacturers will not take licenses is to say that they are content to buy the unpatented materials from the Petitioner and its licensees. But a large number of nationally-known shoe manufacturers throughout the country buy these unpatented materials from the Respondent MAGIC TAPE COMPANY (see Tr. p. 16 for a list of Respondent's customers).

The District Court found that the issuance of licenses is in fact feasible (Opinion, Tr. p. 34) and this finding is affirmed by the Circuit Court of Appeals (Opinion, Tr. p. 382). This finding is clearly right but in any event is not clearly wrong and should therefore stand.

II. QUESTION NOT OPEN TO PETITIONER.

1. How can a patent owner amend his method of doing business in such a way as to remove the bar of the Carbice (283 U.S. 27) and Leitch (302 U.S. 458) cases (Question No. 7, Petition p. 11)?

This is a moot point. When and if Petitioner carries out in fact the promise made orally at the hearing before the Circuit Court of Appeals, then there will arise the question whether the terms offered are reasonable and non-discriminatory. That question has not yet arisen in this case.

On this point as to the oral promise to give license, Judge Magruder remarked:

> "The catch in the professed willingness of the patentee to offer the alternative of an unrestricted license to any shoe manufacturers who prefer to buy the unpatented materials elsewhere is, I suppose, that the

terms of such license can be so framed as to render the choice illusory, and thus to leave the patentee's competitors at a disadvantage." (Opinion, Tr. pp. 388, 389.)

In connection with this point, the Judge remarked that the Supreme Court may find an early occasion to review the whole subject matter as to the scope and effect of the Leitch decision. This was said in connection with his analysis of the difficulties arising in any attempt to determine whether the choice of licenses offered is illusory or not.

The Judge was in no doubt, however, as to the application of the law to the case as it now stands on the Record.

Indeed, there is another "catch" in this oral offer to give licenses, for if that offer were carried out by offering licenses to the customers of the Respondent MAGIC TAPE COMPANY, there would be an end to this Petition and this particular litigation. The Petitioner has had a chance since the oral argument to make good its offer of licenses and has not done so.

III. ALL THE QUESTIONS PROPERLY RAISED HAVE BEEN SETTLED BY THIS COURT.

1. Do the Carbice and Leitch cases bar an action for direct infringement (Question No. 1, Petition pp. 9, 10)?

The patent owner, as was decided in those cases, may not by indirection adopt a method of doing business which is the equivalent of an express license on condition that the licensee buy the unpatented materials from the licensor. He may not have the aid of the Court in establishing a partial monopoly in the supply of unpatented materials for use in a patented process.

On the reasoning of the Court it can make no conceivable difference by what kind of suit against what kind of an infringer the attempt is made.

No distinction was drawn between direct and contribu-

tory infringement in the earlier cases decided by this Court. *Motion Picture Patents Case,* 243 U.S. 502, involved a charge of direct infringement against the user of the patented machine, Prague Amusement Co., and contributory infringement against Universal Film Co. and another who supplied films to the user. It seems very clear that no such distinction should be drawn in cases involving the equivalent method, as in this case, to secure a partial monopoly of unpatented materials.

Indeed, the Carbice case itself, which was an action of contributory infringement, was decided on the authority of the Motion Picture Patent Case.

The Circuit Court of Appeals for the Seventh Circuit in

> *American Lecithin Co.* v. *Warfield Co.,* 165 F. (2d) 207,

has applied the rule of the Carbice and Leitch cases to an action of direct infringement. (Certiorari denied, 308 U.S. 609). This case has been cited with approval by this Court in

> *Ethyl Gasoline Corp.* v. *United States,* 309 U.S. 436, at p. 459.

It is on this point that the Petitioner conjures up the conflict of Lower Court decisions where there is no such conflict. The rule of the Carbice and Leitch cases has been applied to actions of direct infringement by the Third, Seventh and Ninth Circuits in the following cases:

> *Barber Asphalt Corp.* v. *La Fera Grecco Contracting Co.,* 116 F. (2d) 211; on rehearing, 116 F. (2d) 216 (C.C.A. 3d).
>
> *American Lecithin Co.* v. *Warfield Co., supra.*
>
> *Dehydrators, Ltd.,* v. *Petrolite Corp., Ltd.,* 117 F. (2d) 183 (C.C.A. 9th).

G. S. Suppiger Co. v. *Morton Salt Co.*, 117 F. (2d) 968 (C.C.A. 7th).

It will be noted that the later decision by the Circuit Court of Appeals for the Ninth Circuit in *Dehydrators, Ltd.* v. *Petrolite Corp., Ltd., supra*, is subsequent to the earlier case in the Ninth Circuit—*Johnson Co.* v. *Philad Co.*, 96 F. (2d) 44[illegible],—on which the Petitioner strongly relies in making out the alleged Lower Court conflict on this point.

There is now no contrary authority in any of the Lower Courts. The Circuit Court of Appeals for the First and Second Circuits have applied the doctrine to contributory infringements in the cases cited on page 18 of the Petitioner's Brief, and they have so stated. Neither Court had before it and did not decide that the rule was applicable only to actions of contributory infringement.

This point, therefore, has been clearly settled by this Court and no misconception of the decisions of this Court has been manifested by the Lower Courts nor has any conflict developed.

2. In this case is the Defendant a contributory or a direct infringer (Question No. 2, Petition p. 10)?

This point is Not material.

However, the acts of both the Petitioner and the Respondent MAGIC TAPE COMPANY in helping the purchasers apply the materials most efficiently, is not a practice of the patented process.

Such advice and assistance as may be given by the seller of the unpatented materials as to their proper use, does not make that use according to the patented process any the less the use of the shoe manufacturer in whose place of business, by whose employees, and for whose benefit the patented process is being performed (Tr. pp. 111-121; 128-131).

3. Is it important to the applicability of a principle announced in said authorities that the materials furnished by the Defendant are not staple articles of commerce although unpatented, but materials "especially designed and prepared" for use in the patented process (Question No. 3, Petition, p. 10)?

This point also has been clearly settled by this Court in a case involving an express license with a tying clause.

> *International Business Machines Corp.* v. *United States*, 298 U.S. 131, at pp. 138, 139.

In this case it was decided that the fact that a patented machine requires in its operation cards that must be carefully made, especially designed and prepared for use in that machine, does not legally justify a requirement that the user of the machine purchase them from the patent owner.

This is a direct authority not only for the kind of situation involved in the International case but also the kind of situation involved in the Leitch case, for both those situations have been held in the Leitch case to be equivalent and both banned.

The rule so clearly set forth in *International Business Machines* v. *United States*, has been again repeated by this Court in

> *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, at p. 459:
>
> "The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another . . . than for the exploitation of an unpatented article. . . ."

Here the rule is clearly applied not only to articles that are not staple but articles that are actually patented by another patent.

See *Philad. Co.* v. *Lechler Laboratories*, 107 F. (2d) 747 (C.C.A. 2d).

It is submitted that by the repeated decisions of this Court it has been clearly settled that the general rule applies whether the articles be staple or not.

The Lower Courts have ruled that the Carbice and Leitch cases apply to specially designed unpatented articles:

Alemite Corp. v. *Lubrair Corp.*, 62 F. (2d) 899 (C.C.A. 1st).

Oxford Varnish Co. v. *Ault & Wiborg Corp.*, 83 F. (2d) 764 (C.C.A. 6th).

Autographic Register Co. v. *Sturgis Register Co.*, 110 F. (2d) 883 (C.C.A. 6th).

The only apparently contrary decision is that of the Ninth Circuit in

Johnson Co. v. *Philad Co.*, 96 F. (2d) 442.

But it is not clear from the decision that the Plaintiff's method of doing business was brought to the Court's attention. Compare *Philad Co.* v. *Lechler Laboratories, supra.*

4. Is it material that (a) no shoe manufacturer has requested a license and that (b) shoe manufacturers do not wish to operate under license (Question No. 4, Petition p. 10)?

The latter statement that shoe manufacturers do not wish to operate under license has been dealt with in the foregoing "Statement of the Case."

It is unimportant that shoe manufacturers have not requested a license. If they buy the unpatented materials from the Petitioner they do not need a license. If they buy from the Respondent MAGIC TAPE COMPANY their request would be in vain. There is no conceivable reason for bringing a suit to stop the sales of unpatented materials to shoe manufacturers if the Petitioner is quite willing that they should

practice the process under license with materials purchased freely in a competitive non-discriminatory market.

The point that the patent owner had never refused a license was urged in the Respondent's Brief before this Court in the Leitch case without avail (see Opinion of Judge Magruder, Tr. p. 388).

5. Do the Carbice and Leitch cases apply where there is no finding to indicate a violation of the Clayton Act (Petitioner's Question No. 5, pp. 10 and 11)?

It has been clearly established by this Court that the rule of the Carbice and Leitch cases is not founded on the Anti-Trust laws but on the inherent limitations of the patent grant.

The *Motion Picture Patents Case* (243 U.S. 502), which was followed in the Carbice case (283 U.S. at p. 31) was not based on the Clayton Act (U.S. Code Title 15, Sec. 14). This Court said in the Motion Picture Patents Case:

> "Our conclusion renders it unnecessary to make the application of this statute [Clayton Act] to the case at bar which the Circuit Court of Appeals made of it. . . ." (243 U.S. at p. 517.)

The holding of this Court in the Carbice case condemning an attempt to secure a monopoly on a commodity not covered by the patent was not based on the Anti-Trust laws. Such an attempt, however, was said to be "analogous to the use of a patent as an instrument for restraining commerce which was condemned under the Sherman Anti-Trust Law, . . ." (at p. 34); "In such cases the attempt to use the patent unreasonably to restrain commerce is not only beyond the scope of the grant but also a direct violation of the Anti-Trust Acts." (Footnote 4, p. 34.) And again in

> *Standard Oil Co.* v. *United States*, 283 U.S. 163, at p. 169:

> "Historically, patent grants were only narrow exceptions to the general public policy against monopolies which developed from the Case of Monopolies, Moore 671, 11 Co. 84, and culminated in the Statute of Monopolies, 21 Jac. I, c. 3, Secs. V-VI. . . . Even apart from the limitations of the Anti-Trust laws, the monopoly granted by the patent statute is not unrestricted in scope. Compare *Carbice Corp.* v. *American Patents Development Corp., ante*, p. 27."

Furthermore and by way of parenthesis, there is evidence that while the application for the patent in suit was still pending, Petitioner and its licensees had 60% of the business of supplying the unpatented materials for use in the patented process (see Affidavit of J. D. Clifford; Physical Exhibit, D. p. 56). If the Petitioner should win this law suit the judgment will establish 100% monopoly in this particular line of commerce.

6. Is it material that the Petitioner did not require its customers by notice or agreement to use only Petitioner's materials (Question No. 6, Petition p. 11)?

It is not material that no notice or agreement has been given or required.

The restrictive notices used by the patent owner in the Carbice case were not insisted upon by it and the case was decided as though there had been no such attempt (283 U.S. at p. 30).

The point was again raised and disposed of in the Leitch case

> ". . . The Court held in the Carbice case that the limitation upon the scope or use of the patent which it applied was 'inherent in the patent grant.' It denied relief, not because there was a contract or notice held to be inoperative, but on the broad ground that the owner of the patent monopoly, ignoring the limitation

'inherent in the patent grant,' sought by its method of doing business to extend the monopoly to unpatented material used in practicing the invention." (302 U.S. at p. 463.)

The rule of the Carbice and Leitch cases is founded on the inherent limitations of the patent grant. Any question therefore of a patent owner's motive or intent is of no consequence. Even the purest of motives will not enlarge the patent grant itself.

It may be noted here, however, that the Petitioner, a wholly owned subsidiary of the United Shoe Machinery Corporation (Tr. p. 44), in fact bears all the stigmata of the monopolist. Its plan provides for apportionment of production and price control of unpatented articles.

The production of top coats is apportioned, solvent top coats being exclusively retained for the Petitioner by limiting its two licenses to non-solvent top coats. (Note: These two licenses are not to practice the patented process but to make and sell some of the unpatented materials for use in the patented process.)

"1. The Licensor has given and granted and by these presents does give and grant unto the Licensee a non-exclusive right and license for the United States of America to make, use, and sell for use or resale by others base-coated fabric for insole reinforcement under the said Letters Patent No. 1,830,428, and any reissue or reissues thereof, but for non-solvent second coatings only." (See Plaintiff's Exhibit 2, Pepperell Manufacturing Company license, Article 1, Tr. p. 245.)

"1. The Licensor hereby grants to the Licensee a personal, non-assignable, non-exclusive license under United States Letters Patent No. 1,830,428, dated November 3, 1931, to coat or cause to be coated and

put out machinery for performing a latex second coating, but not to put out machinery for base-coating, upon material of the kind known in the trade as Gem Duck during the term of said Letters Patent or any reissues thereof. It is understood and agreed that no license is hereby granted under said Letters Patent or otherwise to coat Gem Duck or other material, or to put out machinery therefor by what is known as the Bostick Process, meaning thereby a solvent second coating." (Plaintiff's Exhibit 3, H-B Products Company license, Article 1, Tr. p. 248.)

The manufacture of base coated fabrics is also restrained. Pepperell Manufacturing Company may make base coated fabrics but the H-B Products Company may not put out machinery for base coating (see H-B Products' license, Article 1, Tr. p. 248).

Comparative prices for the unpatented products of the Petitioner and its licensee H-B Products Company are also fixed in Article 6 of the H-B Products Company license (Tr. pp. 249, 250).

SUMMARY.

It is therefore urged that the Petition for Certiorari be denied.

Respectfully submitted,

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